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C O N F I D E N T I A L SECTION 01 OF 02 BUCHAREST 000789

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TAGS: [ECON](#) [EFIN](#) [ELAB](#) [PGOV](#) [RO](#)  
SUBJECT: ROMANIA: PUBLIC SECTOR WAGE BATTLE THREATENS TO  
BRING GLOBAL FINANCIAL CRISIS HOME

Classified By: DCM JERI GUTHRIE-CORN FOR REASONS 1.4 (B) and (D).

¶1. (SBU) Summary. Last week's parliamentary vote to increase national teacher salaries by an eye-popping 50 percent has thrust the Government of Romania (GOR) into a fierce wrestling match with labor unions less than two months before November 30 elections. Prime Minister Tariceanu's government is contesting the increase in the Constitutional Court. While continuing to insist publicly that the global financial crisis will have only marginal impact on the domestic economy, Tariceanu and other Romanian leaders are also issuing dire warnings about the potential impact of budget-busting salary increases, making the GOR's fiscal position look suddenly more precarious. The controversy claimed its first high-level political victim on October 7 when Tariceanu forced Education Minister Cristian Adomnitei to resign. End summary.

¶2. (SBU) Romania's relative calm in the face of global financial turmoil has been shaken in the last week by the fallout over Parliament's overwhelming approval on September 30 of a Social Democrat (PSD)-sponsored bill to hike teacher salaries nationwide by 50 percent, and those of college professors by 74 percent. The bill, which earlier passed the Senate, garnered broad support across the political spectrum and was adopted by the Chamber of Deputies after a scant 30 minutes of debate. The government of Prime Minister Calin-Popescu Tariceanu has fought back, insisting that the teacher raise alone is more than the GOR can afford. The GOR has filed a request with the Constitutional Court to annul the vote on the legal grounds that the bill did not specifically stipulate where the extra funds would come from. The PM has also publicly called on President Traian Basescu not to promulgate the law; Basescu has so far remained silent regarding his intentions.

¶3. (SBU) Not unexpectedly, the vote has produced a wave of indignant demands from unions representing other public sector employees for similar huge increases, from health care workers to city and town municipal employees. An estimated 5,000 to 7,000 workers from a wide range of labor groups staged a day-long protest outside the Parliament on October 7 to demand higher wages and better working conditions. Public sector unions have called for a two-hour "protest strike" on October 9, and are threatening a general strike of public workers starting October 16 if their demands are not met. Tariceanu has invited labor leaders to a meeting at Victoria Palace on October 10 in an effort to defuse the situation.

¶4. (SBU) The controversy has already claimed one prominent political victim, Minister of Education Cristian Adomnitei, who was forced to resign by Tariceanu on October 7. The

Prime Minister publicly blamed Adomnitei for not having done enough to head off the parliamentary vote and for failing to defend the Government's fiscal interests. Opposition leaders and the media especially criticized Adomnitei for being present in the Chamber and voting for the bill himself, then declaring afterward that the GOR did not have the money for the increase. The PM has nominated Anton Anton, President of the National Authority for Scientific Research, to replace Adomnitei as Minister.

15. (SBU) The political battle shaping up over public sector salaries comes against the backdrop of the world financial crisis, raising concerns among some political leaders and economic analysts that Romania's relative insulation thus far from turmoil in the markets could be in jeopardy. Finance Minister Varujan Vosganian warned following the parliamentary vote that the wage increase would cost the GOR an additional 1 billion euros a year, and that if the full range of higher wage demands by public sector workers were met, the cost would exceed 6 billion euros ) enough to push Romania's fiscal deficit from the projected 2 percent of GDP this year to 7 percent. Any wage hikes would come on top of a bevy of spending increases already approved by Parliament with the elections in mind, ranging from a 20 percent increase in retirement pensions effective October 1 to winter home heating subsidies, family and child support allowances, and elimination of reimbursement rate ceilings for many prescription drugs. Dozens more such proposals still remain on Parliament's end-of-term agenda.

16. (SBU) National Bank of Romania (BNR) Governor Mugur

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Isarescu has also waded into the political fray, declaring at a joint press conference with Tariceanu on October 6 that the massive wage hikes being demanded could push Romania into an inflationary spiral. Wage increases in the economy have consistently exceeded growth in worker productivity rates in the last couple of years, with the excess reflected in Romania's large current account deficit, now just under 14 percent of GDP. However, the current account deficit cannot absorb the kinds of wage hikes being proposed, which would push inflation well beyond the politically sensitive level of 10 percent, Isarescu cautioned. He said the BNR is also keeping close watch on exchange rates, with the leu having depreciated sharply against both the dollar and the euro in the last two weeks. However, both Tariceanu and Isarescu took pains to insist that Romania's economic fundamentals remain sound and that they do not expect severe repercussions in the local economy from the global crisis, assuming the state budget remains under control.

17. (C) Comment. End-of-year government spending binges are a perennial feature of Romania's fiscal cycle, and analysts have fully expected that this year would be no different, especially in an election season. Thus far in 2008 the GOR has kept the fiscal deficit well below 2 percent of GDP, even while increasing spending across a range of priorities supported by substantial revenue inflows thanks to Romania's robust economic growth. Now, however, the sheer magnitude of pay increases being demanded by public sector employees, with evident parliamentary support, is quickly emerging as a major threat to this delicate balancing act. Leaders such as BNR's Isarescu are acutely aware that the current global financial turmoil is as much a crisis of confidence as anything else, and that budget-busting fiscal recklessness in a period of such uncertainty could well prove a crucial tipping point in terms of market sentiments toward Romania. PM Tariceanu is warning darkly that this issue could undo the last four or five years of economic gains, and even in this election season, that may not be mere political hyperbole. End comment.

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